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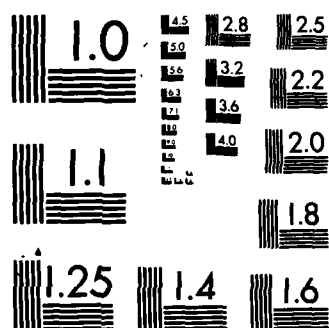
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A. Ross Johnson

February 1985

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## EASTERN EUROPE'S "TIME OF TROUBLES"<sup>1</sup>

### The Problem

Soviet economic stagnation--if that is the proper characterization--in the 1980s is accompanied by a "time of troubles" in the core of the Soviet empire, Eastern Europe. The challenge to Soviet interests from Eastern Europe does not derive fundamentally from economic factors, but it is exacerbated greatly by economic difficulties. Are economic stringencies in the USSR, on the one hand, and in Eastern Europe, on the other, of similar origin? How much are they mutually reinforcing? We may posit four hypotheses: (1) Eastern Europe's economic difficulties are serious enough and Soviet interest in ameliorating them great enough that Eastern Europe will claim Soviet economic subsidies of such magnitude as to impact on Soviet resource allocation decisions. (2) Soviet inability or unwillingness to extend large subsidies to Eastern Europe will lead to Soviet toleration of the significant restructuring of the East European economies necessary for an economic upturn in the region. (3) The absence of large Soviet subsidies to Eastern Europe will contribute to greater instability and unrest in the region. (4) The seriousness of the problem has been overstated; the East European economies can make acceptable if not dramatic progress without reform, and the required Soviet subsidies are not of such magnitude as to pose clear tradeoff decisions to the Soviet leadership.

This discussion paper will review salient trends in Eastern Europe that must be kept in mind in examining these four theses (and others). The focus of this paper is Eastern Europe, not the USSR; the perspective is that of a non-economist.

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<sup>1</sup> This paper is a slightly revised version of a Discussion Paper prepared for a conference on "Soviet Economic Stringencies: Political and Security Implications" held at the National Defense University, Washington, D.C., May 1984.

### Eastern Europe's "Time of Troubles"

Eastern Europe faces a "time of troubles" more serious than at any time since 1956. The proximate causes are economic. To be sure, we have heard dire economic predictions about Eastern Europe before.<sup>2</sup> But the fact remains that economic growth in the region declined from 7.3 percent yearly in the first half of the 1970s to 4 percent yearly in the second half of the decade to negative growth after 1980.<sup>3</sup> It has been argued that the East European economic slowdown would have occurred much more precipitously had it not been for three factors: periodic investment campaigns at lower stages of development; Soviet trade and other subsidies beginning in the 1960s; and cheap Western credits in the 1970s.<sup>4</sup> By the end of the 1970s, these palliatives lost much of their effectiveness. The East European economies had, by and large, exhausted the potential of extensive development, and thus a boost in investment (a proven instrument for improving the performance of centrally planned economies at lower levels of development) was less effective than it had been in earlier economic downturns. The associated rigidities of the East European economic mechanisms hampered (in comparison with other economic systems at comparable stages of economic development) adjustment to the second international economic "shock" of the late 1970s.<sup>5</sup> Soviet trade subsidies, especially for energy imports, were reduced. And Western credits became more expensive and then dried up.

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<sup>2</sup>E.g., Tad Szulc, "Malaise of Crisis Proportions Grips Eastern Europe," *Washington Star*, November 14, 1976.

<sup>3</sup>Official East European statistics, in Jan Vanous, "East European Economic Slowdown," *Problems of Communism*, July-August 1982, p. 3.

<sup>4</sup>Paul Marer, "Intrabloc Economic Relations and Prospects," revised version of paper prepared for Conference on the Warsaw Pact, Cornell University, May 13-15, 1982, February 1983, pp. 24-26. See also Paul Marer, "Economic Performance and Prospects in Eastern Europe: Analytic Summary and Interpretation of Findings," in Congress of the United States, Joint Economic Committee, *East European Economic Assessment: Part 2--Regional Assessments*, Washington, D.C., U.S. Government Printing Office, 1981, pp. 19-95.

<sup>5</sup>As argued by Laura Tyson, *Economic Adjustment in Eastern Europe*, The Rand Corporation, R-3146-AF, September 1984.

Western economists have generally agreed in recent years that Eastern Europe's economic problems are major rather than minor and that the required corrective measures are radical rather than "more of the same." Marer states:

The already modest initial growth targets of the 1981-1985 five-year plans have repeatedly been revised downward, as were the plans for the growth of investments and improved living standards. Eastern Europe has entered a fundamentally new economic era. The pressures are not cyclical or temporary but fundamental and there are no easy or obvious ways to overcome them. Improved economic conditions in the West would ease the pressures a bit but would not be sufficient to make them disappear.<sup>6</sup>

Vanous argues:

The Polish economy is in a crisis the depth of which is beginning to rival the Great Depression of the 1930s. Other East European economies face a slowdown in growth unprecedented in the postwar period. The same sort of pressures that blew the lid off Poland will increasingly build beneath the political leaders and central planners of the other East European countries, forcing them to make hard decisions to cope with the mounting economic problems.<sup>7</sup>

Against the background of these gloomy forecasts, we must note that the East European countries reported better-than-anticipated overall economic performance in 1983--a 3 percent average increase in the net material product (Wharton Economic Forecasting Associates had forecast an average 2.3 percent increase in produced national income).<sup>8</sup> The hard-currency Western debt has been reduced in all countries except Poland through a combination of austerity and import restrictions. These data offer little support for the thesis that the East European economic problems are perhaps less severe than was thought in recent years.

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<sup>6</sup>Marer, 1982, pp. 26-27.

<sup>7</sup>Vanous, 1982, p. 1.

<sup>8</sup>ECE data, cited in *Neue Zuercher Zeitung*, March 24, 1984; Vanous, 1982, p. 3.

Western and East European economists alike argue that economic growth in the region may increase moderately for a few years, but they anticipate a subsequent new downturn in the absence of "thoroughgoing economic reforms."<sup>9</sup>

Even if--as seems unlikely--growth rates of 3 percent can be sustained for the next several years, this may do little to defuse the social and political tensions that increased in Eastern Europe in the late 1970s and exploded (peacefully) so dramatically in Polish factories in July-August 1980. After the 1950s, the Communist regimes of Eastern Europe became less dependent on repression and came to rely more on "consumerism" to maintain their rule and enhance their claim to legitimacy. They thus became hostage to economic progress, especially to an increase in the standard of living. They became dependent on what Alex Pravda has called an economic welfare-based "social compact."<sup>10</sup>

The ruling Parties' claim to legitimacy was threatened by the economic downturn of the late 1970s. The problem was compounded by an altered sociopolitical situation in Eastern Europe, with the emergence of the first "mature socialist" work force. This group, symbolized by the Gdansk worker-activists, but with counterparts elsewhere, took seriously the notion that the "working class" should have pride of place in a socialist society. It had no personal experience with the "evils" of capitalism, the destruction of World War II, or Stalinist repression. It could be "bought off" (at least for a time), but its price was the expectation of a steady improvement in its standard of living. This exposed the ruling Communist Parties to the danger that if they could not meet the rising economic expectations of the new working class, they had no real basis on which to justify their rule.

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<sup>9</sup>E.g., Friedrich Levick, Director of the Vienna Institute for Comparative International Economic Studies, as quoted by AP, March 30, 1984. Kusin argued that the relatively improved performance of the Czechoslovak economy in 1983 did not, given the underlying structural problems, promise any substantial economic upturn. See Vladimir V. Kusin, "Czechoslovakia in 1983," *Radio Free Europe Research*, January 12, 1984, pp. 4-5.

<sup>10</sup>Alex Pravda, "East-West Interdependence and the Social Compact in Eastern Europe," in Morris Bornstein, Zvi Gittelman, and William Zimmerman, eds., *East West Relations and the Future of Eastern Europe*, London, George Allen & Unwin, 1981, pp. 162-187.

The consequence of the economic downturn in Eastern Europe has indeed been an increase in social ferment throughout the region. Each country in Eastern Europe must, of course, be analyzed individually. The Polish crisis speaks for itself, as a case of the first massive active opposition to Communist rule in Eastern Europe since the late 1940s. Three years after the imposition of martial law, Poland is not "normalized" and the Party apparatus remains beholden to its military and security forces for its post-Solidarity rule. Poland is not Eastern Europe, but it is its largest and most populous country (with one-third of the population of the region).

Worker unrest has been evident in Romania; it has so far been contained by the heavy repressive hand of an increasingly ingrown and unpopular regime-cum-dynasty that is no longer able to capitalize to the extent it once could on Romanian nationalism and anti-Sovietism to secure popular support. Economic problems and a revived sense of community with Germans in West Germany have fueled discontent in the GDR; 3 percent of the population has officially applied for emigration (the obvious penalties notwithstanding); 30,000 left legally in 1984; the churches have become a locus of dissidence and opposition. Czechoslovakia and Bulgaria seem to have been largely free of active opposition, although Czechoslovakia has given birth to an incipient "peace movement," and the opposition of the Chartists (still small and isolated) has become more open. Hungary, as will be noted, is in a different situation entirely.

### **Prospects for Reform**

It is the general view of economists specializing in Eastern Europe that thoroughgoing reform of the East European economies is necessary if those economies are to grow, and, in particular, if they are to satisfy consumerist expectations. This does not mean tinkering with the Stalinist model of a centrally planned economy (let us stop calling that "reform"); it means introducing the market mechanism in and diluting the exclusivity of the state sector--the "Hungarian model." Assuming the introduction of such measures is indeed the prerequisite for economic improvement, it is not happening--and it is unlikely to happen.

Poland's "reform" is said to be an adaptation of the Hungarian model; in fact, it is suffering the same gutting by administrative fiat and bureaucratic sabotage that were the fate of the many earlier and less ambitious Polish "reforms." Elsewhere in the region there are few signs of any desire, let alone ability, to emulate the Hungarian model. The Bulgarian "reform" does not point in this direction (some obfuscation by Hungarians notwithstanding); nor do the discussions among Czechoslovak economists.

Hungary is the "success story" of Eastern Europe in many respects. Yet Western discussions have a tendency not only to exaggerate the potential transferability of the Hungarian experience, but also to overrate Hungary's success. Apart from Poland, Hungary had the lowest economic growth rate in Eastern Europe in 1983; the output of its touted agricultural sector declined slightly. This may be the consequence of painful but necessary adjustments to permit the economy to improve its future performance. Many Hungarian economists argue that the Hungarian reform must be developed further if it is to work. Such a "reform of the reform" remains anathema to the Kadar leadership. In practice, however, Hungary appears to be taking another step toward expanded reform, enacting measures intended to increase the independence of enterprise management, to separate central from commercial banking functions, and to limit price subsidies.<sup>11</sup>

These encouraging signs notwithstanding, the Hungarian reform is partial and fragile and arguably the consequence of unique circumstances--beginning with the bloodbath of 1956--and the achievement of one man--Janos Kadar--whose succession looms. Even if the Hungarian reform has "taken off" economically, its decisive political test lies ahead. For market-oriented economic reforms inevitably portend political reforms. Granting the significant political decompression that has occurred in Hungary, the issue of structural political change is now surfacing in Hungary for the first time (for example, in the form of calls for genuine interest-group representation in the parliament).<sup>12</sup>

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<sup>11</sup>MTI and Reuter reports on a Hungarian Party Central Committee Plenum, April 1984.

<sup>12</sup>In the words of one Hungarian reformer: "I imagine a multi-center organizational system where even the types of centers are

Elsewhere in Eastern Europe, opposition to restructuring of the economic systems arises first of all within the East European countries themselves, not from Moscow.<sup>13</sup> Such restructuring can mean short-term economic disruption. It inevitably entails reform of the political system. The functioning of a complex modern economy assumes a rapid flow of effective information, devolution of decisionmaking to a level where decisions can benefit from that information, and flexible mediation among competing groups in both resource allocation and consumer goods production.<sup>14</sup> But such attributes of modern economic management are incompatible with the Leninist "leading role of the Party." Political reform is rejected by the East European leaderships, because it would undermine their own institutional and personal power. Their decisions on this score are little affected by reform-minded sub-elites, who see the problems--perhaps better than the outside observer--but who are unable to contribute much to the necessarily political solutions. The "reformers" recognize the necessity of structural transformation, but they seem impotent in the face of the established Leninist principles of power and the entrenched bureaucracies that exercise power.

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described in the plural. Not only the trade unions but even the capital ownership institutions will fall outside the sphere of executive power. All this is connected to the idea of parliament being a more effective form than at present for the social supervision of state administration. I am proposing that supervision of the capital ownership organizations should be entrusted to parliament. This would emphasize the partnership-type relationship of the state apparatus and the owners of capital, not the relationship of subordination, and would increase the social role of parliamentarianism." (Marton Tardos, interview in *Mozgo Vilag*, February 2, 1983, JPRS No. 83324, April 25, 1983).

<sup>13</sup>See Wlodzimierz Brus, "The East European Reforms: What Happened to Them?" *Soviet Studies*, April 1979.

<sup>14</sup>See Philip Windsor, "Stability and Instability in Eastern Europe and Their Implications for Western Policy," Karen Dawisha and Philip Hanson, eds., *Soviet-East European Dilemmas*, New York, Holmes & Meier, 1981.

## The Soviet Factor

If the East European Communist establishments determine the weather that affects the prospects for reform, the climate is determined by the USSR. Given the Soviet leadership's self-definition of its interests in Eastern Europe, that climate is unfavorable. The Soviet stake in Eastern Europe--militarily, politically, ideologically, offensively and defensively--is clear. Given the looming problems in Eastern Europe, as J. F. Brown has noted, the discrepancy between the importance of the region to the USSR and its current value is growing. It might be supposed that some Soviet leaders have begun to question the present approach to "socialism" in the region.

Most efforts to project alternative future Soviet approaches to Eastern Europe in response to this situation involve variations on four Soviet policies:

1. Decolonization--allowing the East European countries to undertake necessary domestic liberalization and become more autonomous internationally. "Dubcekization," "Benesization," and "Finlandization" are variations on this theme.
2. Re-Stalinization--return to domestic terror and heavy-handed Soviet domination.
3. "Muddling through plus"--tolerating or encouraging modest sectoral reforms in Eastern Europe as long as the "commanding heights" of power remain firmly in Leninist hands.
4. "Muddling through minus"--discouraging even minor reforms, encouraging greater repression of oppositional forces, etc.

The first and second alternatives are improbable, if not impossible, in this century. The second would require a revival of Stalinism in the USSR itself. The first is precluded by the Soviet requirement--however much the costs have increased--to perpetuate an Eastern Europe in the Soviet mold. This Soviet requirement has many dimensions--political, psychological, ideological, security--that have been widely discussed. What is arguably crucial to successive Soviet leaderships is the role of "real existing socialism" in Eastern Europe

in boosting the Soviet leadership's sense of legitimacy as the leading power of a world system in the historical ascendancy and as the rulers of the multinational Soviet Union on a basis other than Great-Russian imperialism.<sup>15</sup>

If the extreme alternatives of Soviet policy are excluded, what remains is muddling through. Given the economic problems and social unrest in Eastern Europe and the lack of "reform" and generational change in the leadership in the USSR, this probably means--moreso under Chernenko than Andropov--"muddling through minus." As John Van Oudenaren has suggested,<sup>16</sup> the Soviet "alliance" may come to look more like an empire than ever, with less emphasis on ideology, less reliance on "consumerism," more emphasis on repression, a corresponding increase in the role of security and military forces, and less intra-bloc diversity in terms of Soviet-sanctioned policies in Eastern Europe.

If this analysis is correct, then the "Hungarian model"--whatever its fortunes in Hungary--is likely to remain unreplicated, not a model but an exception. We should expect to see more efforts in various countries to fine-tune the command economies, but market-oriented reform will probably be abjured.<sup>17</sup>

Under this assumption, social tensions in Eastern Europe will increase, giving rise to renewed popular opposition and upheaval on some scale in one or more countries. Barring the evolution of intermediate institutions able to represent particular social interests and mitigate social tensions, and an ensuing dilution of the "leading role of the

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<sup>15</sup>"Not only security is at stake, but ideology as well," Soviet commentator Bovin said (regarding Party rule in Eastern Europe) to Joe Kraft (*The New Yorker*, January 13, 1983). The same life-line approach exists within Eastern Europe as well. "The socialist community is politically interested in maintaining the socialist system in all its members, for otherwise it may face disintegration..." (Adam Schaff, in *Polityka*, January 22, 1983, justifying the imposition of martial law in Poland).

<sup>16</sup>John Van Oudenaren, *The Soviet Union and Eastern Europe: Options for the 1980s and Beyond*, The Rand Corporation, R-3136-AF, March 1984.

<sup>17</sup>This is the projection of Hans-Hermann Hoehmann, "The East European Economic Reforms in the Seventies: Policy by Default," *Berichte des Bundesinstituts fuer ostwissenschaftliche und internationale Studien*, 7-1981. Vanous has argued the contrary (Vanous, 1982, p. 18).

Party"--all of which seem unlikely--stagnation, instability, and unrest are likely to characterize Eastern Europe over the next decade.<sup>18</sup> In this situation, the USSR will be confronted more sharply than in the past with the tradeoff between greater subsidies to or more unrest in Eastern Europe. In the last few years, the Soviet Union appears to have limited rather than increased subsidies to Poland.<sup>19</sup> But some Soviet subsidies may prove to have a life of their own. Poland has reportedly sought to postpone until after 1990 repayment of \$3.3 billion to the USSR--because of its stagnant industrial production and because of the associated need to reach some agreement with its Western creditors.<sup>20</sup>

### The Western Connection

If the East European economies are to grow and social tensions are to be limited, the corollary of market-oriented domestic reforms is more openness to the the world economy on sound economic terms (not "Gierekism"). This seems to be the consensus of Western specialists. It is a view for which there is considerable support among East European economists and other sub-elites.<sup>21</sup> Economic autarky of the kind that characterized the Soviet bloc in the early 1950s will worsen rather than improve economic conditions in the region. This seems to be recognized throughout the Soviet bloc; the internal debate is not about autarky but about the proper portions and modalities of economic intercourse with the West. This dependency on the Western economic connection, together

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<sup>18</sup>A. Ross Johnson, "Eastern Europe: The Challenge from Within," *Problems of Communism*, September-October 1983.

<sup>19</sup>As argued by Andrzej Korbonski, "Soviet Policy Toward Poland," in Sarah M. Terry, ed., *Soviet East-European Relations*, New Haven, Yale University Press for the Council on Foreign Relations, 1984.

<sup>20</sup>AP dispatch from Warsaw, April 18, 1984.

<sup>21</sup>E.g., "CMEA countries can advance only with an adjustment to the changed world economic conditions together with a simultaneous implementation of comprehensive domestic reforms." (Study of the Hungarian World Economic Research Institute, *Valosag*, March 3, 1983); "There are attempts [in Poland] to put forward the thesis on the necessity of isolation from the West. Such a thesis cannot be defended, for various--not just economic--reasons." (Janusz Symonides, Director of the Polish Institute of International Affairs, *Sprawy Miedzynarodowe*, No. 9, 1982).

with the new social stirrings in Eastern Europe, supports the argument of Pierre Hassner that Western creditors, along with the East European peoples, now have an important influence over developments in Eastern Europe.<sup>22</sup> The reported linkage between Poland's economic obligations to the West and Soviet subsidies to Poland is a dramatic indication of this interrelationship.

In discussing the impotence of Western policy toward Eastern Europe after World War II, Phillip Mosley once argued that "hope without power is not a policy." Whatever one's policy preferences, it can today no longer be argued (as it frequently was in the past) that given Soviet military power and political control mechanisms, the West lacks instruments to exert influence in Eastern Europe. The Western economic connection is a significant instrument. The second such major instrument is Western informational activities (ranging from radio broadcasts to elite-level exchanges) that affect East Europeans; the most dramatic case is East Germany, where West German television has totally undermined the Party's former information monopoly.

These (and other) Western policy instruments can serve a variety of policy aims vis-a-vis the Soviet bloc. Some of these aims are complementary; others are mutually incompatible:

1. *Promotion of instability (or "revolution")*, actively seeking to raise the costs of Soviet empire in terms of Soviet expenditure of resources of various kinds (economic, political, military, leadership attention). In its extreme form ("the worse the better"), such a policy is unsustainable domestically in the West and would alienate the peoples of Eastern Europe who are, politically and potentially militarily, "allies" of the West.

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<sup>22</sup>Hassner argues that since the USSR fears and needs the influence of the West to control its empire, the West "has a chance of making the USSR accept the unacceptable, i.e., a kind of comanagement of the periphery of her empire between herself, local forces and Western creditors." (IISS, *Adelphi Papers*, No. 174, Spring 1982, p. 49.) The case is easily overstated, e.g., "[In the face of unrest in Eastern Europe] Moscow must show patience as long as things somehow work out, since its desolate system needs Western credits." (Christian Schmidt-Haeuer, in *Die Zeit*, August 29, 1980.)

2. *Encouragement of preservation and assertion of the national identity of the East European states and peoples*, a less active effort to raise the costs of or limit the scope of Soviet empire. Such a policy focuses on the people more than the Communist elites and seeks to minimize their inculcation in Soviet values over the long term.
3. *Promoting evolutionary change in Eastern Europe*, the gradual modification of the elements of the East European "Leninist internationalist" systems most supportive of Soviet interests and the eventual transformation of those systems into something else. This policy has generally focused on elites rather than masses. The policy is criticized by some on the grounds that there has been little system evolution in Eastern Europe in the post-Stalinist period. This paper suggests that the prospects for such evolution are not good.
4. *Development of East European-Western ties for reasons extraneous to or supplementing the effect in Eastern Europe itself*, promoting "stability" in Europe, limiting the danger of nuclear war, reassuring West European states more concerned with East-West "cooperation" than the United States, responding to domestic constituencies, etc. No realistic American policy toward Eastern Europe can ignore such considerations, including domestic politics and the interests of West European allies.

Whatever the mix of these four policy lines (or others that have been neglected) deemed optimal (by individual observers and by governments), two points should be kept clearly in focus. First, the Western economic and informational-cultural "presence" in Eastern Europe is today greater than at any time in the postwar period. Second, the main preoccupation of Western policy toward Eastern Europe over the next decade is likely to be dealing with "Polands" rather than "Hungaries." As the East European cynics would have it, "the 1980s in Eastern Europe should be worse than the 1970s but better than the 1990s."<sup>23</sup>

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<sup>23</sup>Stephen Fischer-Galati, ed., *Eastern Europe in the 1980s*, Boulder, Colorado, Westview Press, 1981, p. 285.

Western policy toward Eastern Europe is likely over the next decade to face fewer opportunities to reinforce gradual change than demands to respond to outbursts of unrest. Such unrest will derive from what is likely to be the unattenuated conflict between the social and national interests of East Europeans, on the one hand, and the Soviet requirements of empire, on the other. Such a conclusion assumes, *inter alia*, the third hypothesis on Soviet subsidies to Eastern Europe postulated at the outset of this paper.

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